Service Date: December 14, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of GREAT FALLS GAS COMPANY, for Authority to Increase Rates and Charges for Natural Gas Service.	UTILITY DIVISION DOCKET NO. 87.7.37 INTERIM ORDER NO. 5313

ORDER ON NO-INTEREST LOAN PROGRAM

1. In Docket No. 81.4.44, Order No. 4804a, the Commission approved the use of a balancing account to allow Great Falls Gas Company (GFG or Company) to recover costs associated with its no-interest loan program. The surcharge was first set at $.0035 per Mcf. Docket No. 85.7.26, Interim Order No. 5153, effective for service rendered on and after August 12, 1985, raised the no-interest loan surcharge to $.0111 per Mcf. When the Company filed its case in Docket No. 87.7.37, GFG requested a no-interest loan surcharge of $.0412 per Mcf (Exhibit #___ WJQ-5). This level of surcharge was based on March 31, 1987, results with taxable income estimated through June 30, 1987.

2. On September 16, 1987, in response to Commission Data Request #1, GFG filed a revised Exhibit #___ WJQ-5. This exhibit was updated through June 30, 1987, and showed a surcharge of $.0549 per Mcf. The September 16th update included sales volumes of

4,639,853 Mcf's which is the level approved in Docket 86.11.62 (5), Interim Order No. 5281. In its original filing the Company proposed using sales volumes of 4,601,605 Mcf's.

3. On October 8, 1987, in response to a Data Request from the Montana Consumer Counsel (MCC), the Company supplied a revised calculation which applied various interest rates for the periods when those capital costs were in effect. This is in contrast to the Company's original filing which used a return of 11.72% as a constant. The revised calculation reduces the no-interest loan surcharge from $.0549 per Mcf to $.0548 per Mcf. In Order No. 4804a, Docket No. 81.4.44, it was the Commission's intention that interest earned on the no-interest loans would be based on the Company's overall cost of capital, and when that cost changed, so would the return calculated on the no-interest loans.

4. The proposed increase in the no-interest loan surcharge from the current $.0111 per Mcf to $.0548 per Mcf is mainly caused by two factors: (1) as time has passed, the absolute number of loans made in the program have increased each year, (2) the State tax recovery in Fiscal 1987, was greatly reduced due to lower earnings. An increase in the surcharge of $.0437 per Mcf is a substantial change which requires careful scrutiny by the Commission.

5. Before examining the calculation of the proposed surcharge, a general review of the no-interest loan program is in order. When this program was approved by the Commission on June 15, 1981, the energy picture was very different than today's circumstances. At that time, a shortage of natural gas was widely discussed. Today, supplies of natural gas are adequate, with reserves which will last well beyond the end of this century. In its response to PSC Data Request #10, the Company agrees that "the energy situation has changed".

6. A part of PSC Data Request #10 was premised on the change in the energy situation, "Should the program be continued or should it be suspended"? GFG responded that the Company favors continuing the program because "there is great value to utilities and their ratepayers in providing additional incentives for cost-effective energy conservation". Since the no-interest loan program was started, the Company has provided no empirical evidence which supports or rejects the claim that this conservation is cost effective. What is known with certainty is that the cost of the program has increased each year. In Fiscal 1981, the cumulative unrecovered costs in the no-interest balancing account were $1,130. At the end of Fiscal 1987, the cumulative unrecovered costs were $254,169 (Exhibit #___ WJQ-5, second revision dated October 8, 1987).

7. Looking toward the future, the Company in a portion of the response to PSC Data Request #10 stated "We anticipate the NIP surcharge will begin to decrease over the next five years as the loan activity decreases and a substantial portion of the five year loans become paid off". If costs from the no-interest loan program continue their past growth pattern, it may well be necessary to modify or even suspend the program.

8. Turning now to the calculation of the proposed surcharge of $.0548 per Mcf, the Commission examined the costs and State tax recoveries since the inception of the no-interest loan program. Interest on the outstanding no-interest loans is paid by GFG to Norwest Bank in Great Falls. From the inception of the program until February 1987, the rate paid by GFG was the prime rate plus 1.5 percent. In February, 1987, the Company renegotiated the no-

interest loan rate to .75 percent over the prime rate. This type of activity which helps to reduce the costs associated with the program is very positive. Loans made in this program are sold to Norwest Bank of Great Falls with no recourse. Thus, all uncollectible loan costs are borne directly by Norwest Bank.

9. Here is a summary of the costs and recoveries in the no-interest loan program since its inception:

Interest paid to Norwest Bank	$632,677
Fees paid to Norwest Bank	38,717
Lien fees	8,073
Interest earned on outstanding loans	50,811
Total Costs	$730,278
Surcharge collected	$139,693
Tax recovery	336,416
Total Recoveries	$476,109

Subtracting total recoveries of $476,109 from total costs of $730,278, produces total cumulative unrecovered costs at the end of fiscal 1987 of $254,169. This amount divided by the volumes of 4,639,853 Mcf's, noted above in Finding of Fact No. 2, results in the proposed surcharge of $.0548 per Mcf. In its response to PSC Data Request #12, the Company filed detailed support for interest and servicing fees prior to fiscal 1982; interest charges for fiscal 1986 and fiscal 1987 and other charges in fiscal 1986 and fiscal 1987. After reviewing this information the Commission finds that the proposed no-interest loan program surcharge of $.0548 should be approved on an interim basis.

CONCLUSIONS OF LAW

1. Great Falls Gas Company is a public utility furnishing natural gas service to consumers in the State of Montana. As such, it is subject to the supervision, regulation and control of this Commission, Section 69-3-102.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides in part... "The Commission may, in its discretion, temporarily approve increases or decreases pending a hearing or final decision."

ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Great Falls Gas Company is hereby authorized to increase the no-interest loan surcharge on an interim basis to $.0548 per Mcf.

2. The interim increase in this Order is to be effective for natural gas service rendered on and after December 14, 1987.

DONE IN OPEN SESSION at Helena, Montana this 14th, day of December, 1987, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.